Supreme Court, U.S.
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No. 01-1373

IN THE

Supreme Court of the United States

MOLONEY COACHBUILDERS, INC.,

Petitioner,

v.

INTERNATIONAL ARMOR & LIMOUSINE COMPANY and EARLE F. MOLONEY,

Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

BRIEF IN OPPOSITION

ROBERT J. TRIZNA
Counsel of Record
THOMAS G. DRATHS
MICHAEL D. LEE
SCHUYLER, ROCHE & ZWIRNER, P.C.
130 East Randolph Street
Suite 3800
Chicago, Illinois 60601
(312) 565-2400

Attorneys for Respondents

173567

COUNSEL PRESS
(800) 274-3321 • (800) 359-6859

PARTIES TO THE PROCEEDING

In addition to the parties listed by Petitioner, two additional parties warrant identification. Limousine Werks ("LW") and Chicago Armor and Limousine ("CAL") were both named as third-party defendants in Moloney Coachbuilders, Inc.'s third-party claim. Although the District Court entered judgment against them, neither of them was a going concern at the time of the judgment and, therefore, are not real parties in interest in connection with this Petition.

DISCLOSURE PURSUANT TO SUPREME COURT RULE 29.6

Respondent, International Armor & Limousine Company, has no parent corporation and no publicly held company owns 10% or more of its stock.

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Moloney v. Centner, 727 F. Supp. 1232 (N.D. Ill. 1989) 2, 3, 4, 6

Statute:

15 U.S.C. § 1114(a), *et seq.* 1

Rule:

Fed. R. Civ. P. 12(b)(6) 3

REASONS FOR DENYING THE WRIT

This is a case in which all parties and two judges of the District Court mistakenly assumed the existence of federal subject matter jurisdiction when, as the Seventh Circuit Court of Appeals' decision makes clear, there was none.

Petitioner Moloney Coachbuilders, Inc. ("MCI") presents several questions for this Court's review, all of which are predicated upon MCI's contention that the mere presence of a federal issue in what is otherwise a state law claim, can support federal subject matter jurisdiction. MCI challenges the Seventh Circuit's opinion that a claim for breach of a contract involving the ownership of trademark rights is a matter of state contract law and not federal trademark law.

As is clear from the Seventh Circuit's opinion, however, any rights that MCI possesses in certain federal trademark registrations were acquired through an asset sale effected via a contract governed by state law. MCI's claims, therefore, were not in the nature of a business tort such as infringement of a federal trademark or violation of the Lanham Act, 15 U.S.C. § 1114(a), *et seq.* but, instead, arose solely under state contract law. That none of the parties, whether by design or oversight, elected to challenge the District Court's subject matter jurisdiction of their opponents' claims cannot obscure the fact that the sum and substance of those claims was the enforcement of state law contract rights.

Accordingly, the Seventh Circuit's decision was proper in all respects; and this Court should deny the Petition for Writ of Certiorari.

STATEMENT OF THE CASE

The Seventh Circuit's decision is predicated not only on the present litigation but also on an earlier lawsuit, *Moloney v. Centner*, Case No. 88 C 6564 (N.D. Ill.) (hereinafter, "Moloney I"). That case was filed in 1988 by Earle Moloney ("Earle") and a corporation controlled by him, against MCI and James Centner, the purchasers of certain business assets — including trademarks and trade names — from Earle's corporation. Following the entry of partial summary judgment as to four of the eight counts of the complaint, "[m]ost of . . . [which] revolve around a contract" for the sale of assets, *Moloney v. Centner*, 727 F. Supp. 1232, 1233 (N.D. Ill. 1989), the parties entered into a settlement agreement (the "Settlement Agreement").

In 1998, International Armor & Limousine Company ("IAL"), another corporation controlled by Earle, filed a two count complaint for a declaratory judgment that IAL's use of the phrase "An E.F. Moloney Owned Company" does not violate MCI's rights acquired through the Settlement Agreement. *International Armor & Limousine Co. v. Moloney Coachbuilders, Inc.*, Case No. 98 C 5898 (N.D. Ill.) (hereinafter, "Moloney II").[1] In response to that complaint, MCI filed a 6-count counterclaim and third-party complaint against IAL, Earle and two other companies controlled by Earle, alleging breach of the Settlement Agreement and various claims related to the trademarks that MCI had acquired from Centner.

The Seventh Circuit held that Moloney II, although creatively wrapped in the mantle of federal trademark law, was nothing more than a trademark "ownership dispute . . . arising under the state law of contracts." Petition, App. A, at 10a. Because "any trademark claims are entirely derivative of the contract issues" (Petition, App. A, at 8a) and because

1. *See* Petition, App E.

there was no basis for federal jurisdiction other than those trademark claims, that Court found that federal subject matter jurisdiction was lacking in Moloney II.

The Seventh Circuit also rejected MCI's argument that subject matter jurisdiction could attach by virtue of the District Court's retention — in Moloney I — of jurisdiction to enforce the terms of the Settlement Agreement. That court held that because subject matter jurisdiction also was lacking in Moloney I, the District Court never acquired federal subject matter jurisdiction that it could have retained for purposes of Moloney II.

1. A Claim Can Be "Insubstantial" Without Having Been Dismissed Under Fed. R. Civ. P. 12(b)(6).

Any analysis of federal subject matter jurisdiction must begin with the presumption that jurisdiction is lacking, and "the burden of establishing the contrary rests upon the party asserting jurisdiction." *Kokkonen v. Guardian Life Insurance Co.*, 511 U.S. 375, 377 (1994). MCI suggests, however, that federal jurisdiction "was accepted by the District Court in [Moloney I] and it was accepted again by the District Court in [Moloney II]." Petition, p. 6.

None of the parties, however, challenged the District Court's subject matter jurisdiction in either of those cases; and, therefore, the District Court never was presented with an opportunity to accept or reject jurisdiction. Similarly, no party challenged any other party's Lanham Act claim as one for which relief cannot be granted, so the District Court in both Moloney I and Moloney II never had to determine whether those claims were "'substantial' enough to give rise to subject matter jurisdiction." Petition, p. 6.

MCI does not, and cannot reasonably, deny that the District Court in Moloney I decided the trademark claims on the basis of state law. Indeed, those claims — in Counts VI and VII — were dismissed on the basis of the District Court's interpretation of the asset purchase agreement by which MCI gained ownership of the trademarks and trade names.727 F. Supp. at 1239 and 1241. Similarly, the District Court in Moloney II noted that the permanent injunction from whence this appeal arose simply reiterated the provisions of the 1990 Settlement Agreement for Moloney I (Petition, App. A, at 40a); and that "it merely prohibits future breaches of the agreement." *Id.* Accordingly, federal law was a total non-factor in both of those cases.

2. The Seventh Circuit's Decision Has No Effect On The Right Of Trademark Owners To Sue In Federal Court For Relief Under The Federal Trademark Laws.

MCI attempts to add global significance to the Seventh Circuit's decision by claiming that "no trademark owner who is a party to a contract regarding that mark will be able to sue the other party in federal court for infringement." Petition, p. 12. That overstates the situation by at least a half: that decision will have no effect on suits for which another basis for federal subject matter jurisdiction exists, such as diversity of citizenship.

Moreover, the mere fact that the ownership of, or right to use, a trademark arises from a contract would not automatically divest a federal court of jurisdiction where the infringement claim was predicated on conduct that did not fall under the terms of the contract. For example, an infringement claim by the purchaser of a trademark against the seller of that mark would still sustain federal jurisdiction so long as the particular infringing acts, or the remedies sought, did not fall within the purview of the purchase contract.

MCI itself alludes to such a situation in Note 7 of page 14 of its Petition, where it suggests that alleged acts of infringement which "did not violate the Settlement Agreement but still infringed [MCI's] mark or otherwise violated the Lanham Act" could support federal jurisdiction.

The Seventh Circuit's decision is consistent with that court's recognition of the difference between a business tort — including those creatures of federal law such as copyright and trademark infringement — and breach of contract. The applicability of that distinction to this case is corroborated by the claims for relief contained in MCI's counterclaim in Moloney II, which include: (1) injunctive relief to preclude Earle, IAL and other affiliated entities from acting inconsistently with MCI's rights under the Settlement Agreement; (2) an accounting of each instance where Earle, IAL, *et al.*, used the marks owned by MCI in ways prohibited by the Settlement Agreement; (3) an accounting and turnover of all profits realized by Earle, IAL, *et al.*, from use of the marks in violation of the Settlement Agreement; (4) injunctive relief requiring Earle, IAL, *et al.*, to pay to MCI all damages it has suffered because of the breach of the Settlement Agreement by Earle, IAL, *et al.*, "trebled in accordance with law"; (5) injunctive relief requiring Earle, IAL, *et al.*, to pay MCI's attorneys' fees and costs (which was provided for under the Settlement Agreement); and (6) for other unspecified relief. Petition, App. at 73a-74a.

The Seventh Circuit's decision, therefore, can be expected to have no effect whatsoever on the majority of those trademark infringement claimants who can invoke federal jurisdiction through diversity of citizenship; or through the Lanham Act where the infringing acts are not governed — and therefore cannot be adjudicated — by an application of the terms of a contract between the parties.

3. Ancillary Jurisdiction Under *Kokkonen v. Guardian Life Ins. Co.*, 511 U.S. 375 (1994), Cannot Be Conferred By A District Court's Express Retention Of Jurisdiction It Never Had.

In a last-gasp effort to seize upon any basis for federal jurisdiction of its state law contract claim, MCI argues that this Court's decision of *Kokkonen v. Guardian Life Ins. Co.*, 511 U.S. 375 (1994) permits a District Court to retain federal jurisdiction of disputes over the performance of a settlement agreement where the applicable dismissal order expressly provides for the District Court's retention of jurisdiction to enforce the settlement agreement. Petition, p. 17. MCI asks this Court to close "a major loophole in *Kokkonen*" created by the Seventh Circuit's refusal to recognize the District Court's ancillary jurisdiction over MCI's state law contract claim for enforcement of the terms of the Moloney I Settlement Agreement in Moloney II.

It is undisputed that the District Court, by the express language of its dismissal order in Moloney I, retained jurisdiction to enforce the terms of the Settlement Agreement. What MCI fails to recognize or accept, however, is that if federal jurisdiction was lacking in Moloney I — as the Seventh Circuit held — the District Court had no jurisdiction in the first instance that could be retained for purposes of enforcing MCI's state law contract claims in Moloney II.

This Court's holding in *Kokkonen* presupposes the existence of federal jurisdiction in the first instance as the foundation for any subsequent retention of that jurisdiction as to later matters. Accordingly, the Seventh Circuit's decision created no "loophole" that needs to be closed by this Court. Both the holding in *Kokkonen* and the reasons for it remain vital and untarnished by the Seventh Circuit's decision; and, in fact, that decision has no effect whatsoever on the well-established principle of ancillary jurisdiction.

4. The Issues Raised By This Case Do Not Have Far-Reaching Federal Jurisdictional Implictions.

Contrary to MCI's assertions, nothing about the Seventh Circuit's decision in this case will inject chaos into the process of determining federal subject matter jurisdiction. As noted by that court, state court jurisdiction has been appropriate for actions in which federal claims are incidental to what is fundamentally a state law contract claim. Petition, App. A, at 8a – 9a.

Although the question of what distinguishes an "incidental" federal claim from a "substantial" federal claim may continue to bedevil MCI in this case, the simple answer that emerges from the Seventh Circuit's analysis is that — at least where trademark rights are conferred or regulated by the terms of a contract — federal jurisdiction will not attach to disputes that require the interpretation or application of those contract terms, or where the trademark claims are merely derivative of the contract issues. *Id.* As noted by this Court in *Merrell Dow Pharmaceuticals, Inc. v. Thompson,* 478 U.S. 804, 813 (1986), "the mere presence of a federal issue in a state cause of action does not automatically confer federal question jurisdiction."

CONCLUSION

For all of the foregoing reasons, Respondents respectfully submit that the Petition should be denied.

Respectfully submitted,

ROBERT J. TRIZNA
Counsel of Record
THOMAS G. DRATHS
MICHAEL D. LEE
SCHUYLER, ROCHE & ZWIRNER, P.C.
130 East Randolph Street
Suite 3800
Chicago, Illinois 60601
(312) 565-2400

Attorneys for Respondents